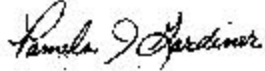


DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

April 12, 2002

MEMORANDUM FOR COMMISSIONER ROSSOTTI



FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Office of Audit's Comments Concerning Management's Response to the Audit Report, *"Federal Requirements Need Strengthening at Lockbox Banks to Better Protect Taxpayer Payments and Safeguard Taxpayer Information"*

This memorandum presents our concerns with the Internal Revenue Service's (IRS) management response to the audit report, *"Federal Requirements Need Strengthening at Lockbox Banks to Better Protect Taxpayer Payments and Safeguard Taxpayer Information"* (Reference Number 2002-30-055, dated February 2002). The response to the report was received after the final report was released.

We are concerned that the IRS plans inadequate actions in response to 2 of the 10 recommendations in our report, and plans to take no action in response to another recommendation. The data from our report, management's response, and the Office of Audit's comments follow:

Recommendations for Which the IRS Plans Inadequate Corrective Actions

Recommendation Number 5: Add a requirement to the Guidelines that clearance must be received prior to couriers delivering and anyone processing IRS materials.

Management's Response: The revised LPG [Lockbox Processing Guidelines] clearly states the requirement for the lockbox banks, an "FBI [Federal Bureau of Investigation] fingerprint check must be performed for each individual who will have access to the lockbox process area or taxpayer data."

Office of Audit Comment: The Calendar Year 2002 LPG still does not specify that the FBI fingerprint check must be performed for all individuals who will have access to the lockbox processing area or taxpayer information **prior** to gaining access to the lockbox site or IRS materials. The guidelines only refer to temporary agency employees and bank

Amending the revised LPG statement to read, “FBI fingerprint check must be performed for each individual **prior to accessing** the lockbox process area or taxpayer information,” would address our concern. The inclusion of the statement, “or taxpayer information” in the preceding paragraph was added to the guidelines as the result of information provided by a Treasury Inspector General for Tax Administration (TIGTA) Senior Auditor to the Director, Financial Services Division of the Financial Management Service (FMS).

[illegible]

Recommendation Number 1: Include a requirement in the Guidelines that at least one video surveillance camera be dedicated to observing and recording a panoramic view of each processing area.

Management's Response: Preliminary information indicates that panoramic view cameras may be of limited value; therefore, we do not plan to implement this suggestion. Although these cameras would provide a wider view of an area, they would not increase the surveillance capability of the site or recording of activity. The images recorded on a panoramic shot may not provide the needed clarity because the wider view results in less resolution. However, we will work with the FMS to evaluate the LPG for enhancements to existing camera requirements.

Office of Audit Comment: We feel that incorporating wide-angle views into the surveillance operation would provide additional means to identify or prevent remittance theft. Officials from the TIGTA Office of Investigations advised us of the need for panoramic views as a result of difficulties encountered gathering evidence in its investigation of the Mellon lockbox bank losses identified in Pittsburgh, Pennsylvania. Further, our ongoing lockbox reviews in Cincinnati, Ohio, and Dallas, Texas, show that video surveillance systems in those facilities adequately incorporate both macro and micro views of the entire processing areas.

While we still believe that our recommendations are worthwhile, we do not intend to elevate our disagreement to the Department of the Treasury for resolution. Consequently, no further action on your part is required.

Copies of this memorandum are also being sent to the IRS managers who received a copy of the final report. Please contact me at (202) 622-6510 if you have questions, or your staff may call Gordon C. Milbourn III, Assistant Inspector General for Audit (Small Business and Corporate Programs), at (202) 622-3837.

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2e = Law Enforcement Procedures